



## PRIME MINISTER

EMBARGO: AGAINST DELIVERY

SPEECH BY THE PRIME MINISTER, THE HON P.J. KEATING, MP

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\*\*\* This is the full text of the Press Club address. Because of time constraints the Prime Minister will deliver an edited version. \*\*\*

When Dr Hewson addressed you here at the Press Club on September 25 last year, he said this:

"The fact is, of course, that nobody has actually really tried rational economics properly".

The implications of these words were not clear then.

The zealot in Dr Hewson had not entirely emerged.

Neither had Fightback.

But we've seen both now.

We've seen the launch of Fightback and several direct hits scored against it.

But it has become clear that for all the holes which have appeared, Fightback has not been allowed to go entirely under.

It cannot sink just yet, because in a very real sense Fightback is just another word for Dr Hewson.

I think that may be why he takes every criticism of his policies as personal abuse.

It is a case of "I am the Word and the Word is Fightback".

The Coalition can't sink Fightback without sinking Dr Hewson.

So, unless the Coalition suddenly bites the bullet and sinks its leader, Fightback is going to be still bobbing around at the next election.

Fightback is the alternative policy package, the alternative ideology, the alternative Australia.

It is only now that Australians are realising what the full implications of Dr Hewson's Fightback are.

Of course a great many Australians have never accepted the idea of the consumption tax at the centre of Fightback.

And it's true that a lot of business people have been uneasy for a long while.

His own party has been uneasy.

The scrutiny we've subjected it to in the last six months has made it, as I said, a pretty lifeless object.

But it's ticking. As long as the doctor's around it's alive.

And I think in the last couple of months more and more people have begun to wake up to the threat of the thing.

The nation I believe is coming to the rather chilling realisation that Dr Hewson has no intention of changing his ways.

That he is utterly committed to all the policy prescriptions of Fightback.

This is not a party platform in the conventional sense.

These are not broad objectives but detailed articles of faith - and collectively they will mean the most radical uprooting of the Australian economy and society in our history.

Dr Hewson is not talking about building on what has been achieved over a century, or even on those higher orders of competition, production and social unity we have developed in the last decade.

He's talking about doing it from Year One - tearing it down and starting again.

That's what I mean about the implications of those words of his last year - "nobody has really tried rational economics properly".

Not Thatcher, not Reagan, not Fraser, not Roger Douglas. None of them went far enough.

What does "properly" mean if not a more pure, a more extreme version of what they did?

What does "tried" mean if not experimented?

Experiments with a theory. Experiments with society.  
With people's lives. Experiments with industries.

If these experiments fail, too bad.

By the word "properly" Dr Hewson meant economic Darwinism  
- the survival of the fittest. Or the luckiest.

This means that the main role for government is to ensure  
that the "price signals" are correct. Governments should  
withdraw.

But governing a nation is not about withdrawing from the  
important decisions the nation must address; it is  
fundamentally about knowing how to act to bring about  
genuine, lasting change.

Dr Hewson claims that his Fightback package will change  
the Australian economy and Australian society for the  
better.

This cannot in any way be true.

At its heart Fightback is essentially a switch in the tax  
base from income to expenditure, and a clumsy, regressive  
one at that.

It's a tax switch which lifts the tax burden on low to  
middle income earners to benefit higher income earners.

It claims to reduce the tax burden on employment by  
abolishing payroll tax but then substitutes for payroll  
tax a much heavier tax on employment. And that of course  
is a much larger Goods and Services Tax on the value  
added by labour at each step in the productive chain.

But Fightback is about more than a tax switch.

It also contains policies on tariffs, industrial  
relations, cuts in government outlays and health amongst  
other things.

Zero tariffs is simply a textbook objective that is not  
grounded in the real world - or the real problems faced  
by particular industries.

It is naive and destructive.

The Liberals industrial relations policy is under attack  
from large and small companies alike, from one industry  
group to another. All see it as confrontationalist, and  
uncomprehending of workplace realities.

Dr Hewson proposes the destruction of Medicare, the one  
comprehensive and simple health system Australia has had.  
And why? For no better reason than to improve the  
incomes of medical practitioners, specialists, private  
hospitals and the private health insurance industry.

A significant proportion of the population would again be under-insured. A significant proportion would again find that they could not afford health services.

In quite unequivocal terms, Fightback is bad news for Australia.

The entire economy put at risk to deliver one political objective - a 30 cent marginal income tax rate for most taxpayers.

Yet the Government will introduce the same 30 cent rate - but no consumption tax.

Now let us look in more detail at Dr Hewson's "tax switch".

#### THE MAGIC PUDDING

At the centre of the Liberal's Fightback is the switch in taxation away from income to reliance on a goods and services tax. This exercise involves shuffling \$40 billion in the name of assisting business at considerable cost and disruption.

Fightback claims that business will be better off and that every household will be better off.

Dr Hewson wants us to imagine that business can take its slice without reducing the amount available to households.

It's a magic pudding policy!

Dr Hewson claims that taxes on business would be cut by \$20 billion.

But the revenue collected from the GST cannot be used both to improve the profitability of businesses to the tune of \$20 billion, and to pass on the benefits to consumers in the form of lower prices.

Without the extra profitability where is the benefit to business? Without the lower prices where is the benefit to consumers?

If business were to enjoy the \$20 billion, the inflation effect would not be 5 to 6 per cent, but much closer to the full 15 per cent.

#### WINNERS AND LOSERS

A moment's thought should convince anyone that rearranging taxes cannot make everybody better off.

But it can make for winners and losers.

And with Dr Hewson's GST there would be a massive redistribution of income away from average families to the wealthy.

Treasury has shown that 70 per cent of households would be made worse off to fund large gains for the rich.

For example, a family with children and both partners working and earning \$25,000 each would be up to \$25 a week worse off. On the other hand, if that family's combined income were over \$90,000, they would find themselves up to \$105 a week, or up to \$5,460 a year, better off.

Fair go, Hewson-style. Incentive, Hewson-style.

#### MACROECONOMIC EFFECTS

It is claimed that the introduction of the GST at the expense of other forms of taxation would improve incentives to work, to save and to export.

But there is no evidence for this. People don't work longer and harder simply because their consumption rather than their income is taxed. Changes to taxes have only marginal effects on overall saving behaviour. And, because the exchange rate is free to adjust, there is no evidence to support the view that exports would lift.

The effects are simply too small to measure.

And certainly too small to warrant all the costs and disruption to industry and the community that would come from a GST.

This is exactly what was found by Chris Murphy, the economist who was asked by Dr Hewson to do the modelling for Fightback. On the crucial assumption that workers do not seek wage increases to compensate for the price effects of the GST, Murphy's results show that a switch from income tax to the GST has small effects on output, the current account and employment. In fact, for the first five years, he found that production would actually fall and unemployment rise.

Professor John Freebairn from Monash University has argued that a switch from a broadly based payroll tax system to a GST would have a minimal impact on the economy.

Treasury's analysis of the major elements of Fightback, and again on the assumption that the compensation package was adequate, show the overall impact on the economy to be very small.

The basic message coming from these studies is that there is likely to be very little impact on employment, or output or the balance of payments from the money shuffling exercise.

As a macroeconomics exercise, it simply doesn't rate.

Crucially, however, the GST would have a profound negative impact on the economy if it disrupts prices and wages. If firms used the GST as an excuse for raising prices by more than the direct effect of the taxes, or if employees refused to accept full discounting of their wages for the effect of the GST on prices, then the economy would be severely damaged.

But why would workers not seek compensation for higher prices?

After all, the great bulk of workers lose under Dr Hewson's proposed compensation package. Of course they will try to retrieve their position in the field.

And if this happens, Chris Murphy's results show that GDP would fall by 4 per cent in the first 5 years. Prices would be sharply up. The unemployment rate would be 2 percentage points higher!

When Dr Hewson is pressed on the damaging effects of the GST, his retort is that Fightback is more than the GST, it's also about industrial relations, eliminating all tariffs, microeconomic reform, health and so on.

#### INDUSTRIAL CONFLICT

Everyone agrees that we need to improve the responsiveness of the workplace. Indeed, this Labor Government has worked with employers and unions to achieve just this. The results have been coming through with agreements like those at Sheraton, Email, Toyota, Concrete Constructions and so on.

In the media recently, we have seen how such agreements have been reached in many successful businesses through a spirit of cooperation. These stories have also touched on the real fears that many businesspeople and workers have about the Opposition's approach to industrial relations.

The Coalition has an ideological aversion to the cooperative approach now being generally applied to get the best from our workplaces. The Coalition's textbook offers the Darwinian prescription.

More strength to the strong.

For there is no doubt that those in a strong bargaining position would benefit from the free for all.

But most would lose.

The safety net for low income earners would be ripped away.

Those without long-established and firm links with the labour force would lose out.

Women would number heavily among the losers. And young people.

Business would lose from a renewal of the discord and uncertainty that was crippling industry a decade ago.

Australia would lose.

### INFLATION

This Labor government has created industrial harmony and low inflation through policies of cooperation.

Under Coalition policies, the risk of excessive wage demands and higher inflation would return with any strengthening in the labour market.

And the only instrument that the Coalition has to maintain low inflation would be tight monetary policy, higher interest rates. Australia would be condemned to a long period of very high unemployment.

And we should reflect on this - at the same time as he introduces the GST price hike, Dr Hewson would abandon the incomes policy which has so effectively reduced inflation.

### IMPACT ON BUSINESS

The Opposition says that jobs will be created because Fightback is pro-business.

But are industrial conflict, high interest rates or higher inflation pro-business?

Fightback is a massive and disruptive accounting exercise for little worthwhile purpose.

According to the estimates in Fightback, the GST would bring in \$27 billion.

Although Fightback involves quite a few minor changes, this money in essence is used for four purposes which add up to \$26 billion:

- 1 First, compensation for the impact of the GST on pensions, family allowances and the States amounts to about \$4 billion.

- ¶ Second, the GST replaces wholesale sales taxes at a cost of \$9 billion.
- ¶ Third, payroll taxes are abolished at a cost of \$6 billion.
- ¶ Finally, petrol excise is abolished at a cost of \$7 billion.

Essentially we have a new tax to be paid by business to replace some existing taxes.

This is Dr Hewson's great bargain.

He likes to focus on the seven taxes that would be removed to sweeten the pill.

But let us look briefly at the rationale for these.

Four of the taxes - the training guarantee levy, the coal export levy, customs duties, and the tax on lump sum superannuation - would only have a limited impact on revenues and, indeed, on costs to business.

The remaining three are more significant elements of our tax system. However, the supposed advantages of the GST are illusory.

First, the wholesale sales tax. No tax is perfect, and this one isn't. But the WST has distinct advantages over the GST:

- ¶ Wholesale sales tax is levied at different rates for different items which means that the great bulk of basic necessities - fresh fruit and vegetables, meat, clothes, electricity bills, and so on - are tax exempt.
- ¶ Compliance costs for the WST are low with very few businesses required to pay.

Dr Hewson also says he will remove the excise on petrol. But this is a sham because it leaves a very large hole in road funding which will have to be made up elsewhere.

The National Road Transport Commission (NRTC) has estimated that the cost of running Australian roads is around \$4.3 billion while the GST applied to petrol will only raise about \$750 million. This leaves an amount equivalent to 18 cents per litre of petrol that has to be raised from Australian motorists.

So where will it come from?

A tax on kilometres travelled would be akin to the petrol excise without providing any incentives for fuel efficiency.



Higher registration charges would have to be very high and extend to passenger cars.

All in all, the abolition of petrol excise is a poor deal.

It is in Fightback largely as a sop to the National Party. Even here, the farmers who already get the Diesel Fuel Rebate get a lousy deal because they don't pay payroll tax and they will be slugged twice by the GST - once as collectors and once as consumers.

Finally, the payroll tax levied by the States. This is the proposal that probably attracts the most interest from business. But, as Professor Freebairn has pointed out, there is little difference between payroll tax and a tax on the value that is added to products by labour. The economic effect of the payroll tax is very like a uniform GST and substituting one for the other will contribute very little - even if the inevitable problems with the States could be resolved.

In summary, replacing some existing taxes with a GST is a costly accounting exercise the nation can't afford.

And small business would pay dearly.

They typically do not benefit from the removal of current taxes because of the relatively high thresholds.

But they would have to keep records to comply with the GST. Overseas studies have found similar taxes to be very regressive in that compliance costs can be over 250 times greater for small business than large business in relative terms.

At present small business doesn't even pay most of the taxes that Fightback promises to abolish:

- ¶ According to ABS statistics, there are currently 832,000 businesses in Australia. Most of these are small businesses and almost all will have to fill out their GST forms.
- ¶ But of these, over 700,000 do not pay payroll tax.
- ¶ And only 20,000 are required to pay the WST while perhaps twice this number will be in the WST system in practice.

800,000 small businesses are destined to become the new tax collectors for Dr Hewson.

To paraphrase a tax expert from New Zealand, they can forget about Sunday afternoons with the family.

MICROECONOMIC REFORM

Dr Hewson also likes to argue that business will benefit from other aspects of Fightback.

Like the conflict in his blueprint for industrial relations.

Like the application of his survival-of-the-fittest philosophy to the car industry.

Indeed, like much of Fightback, just what Dr Hewson intends on micro reform is poorly spelt out.

For "illustrative" purposes, Fightback sets out the benefits that may flow from reforms examined by the Industry Commission.

But what are these reforms?

They fall into two groups, reforms where this Labor government has already made significant progress, and is continuing to implement change, or reforms that are primarily the responsibility of the States.

According to the Industry Commission's list, reforms to rail transport would have the single biggest impact on GDP at 1.5 per cent. These reforms in part involve the national freight system which is currently being transformed into a National Rail Highway as announced in One Nation. The rest of the IC's proposals centre on suburban rail which, according to the IC analysis, would be made more efficient with different pricing policies.

Would Dr Hewson take over this area of State responsibility?

Would he increase suburban rail fares by the 150 per cent that the proposals imply?

The measure on the IC's list with the second largest impact is assistance to the rural and manufacturing sectors.

Most of the benefits to be had here will flow from the Government's measured reductions in protection, reductions that will leave vibrant industries at the end of the process.

Dr Hewson's crude approach to the car industry, to the TCF sector or to sugar would in fact see less production in Australia, not more.

In aviation, the waterfront, electricity and so on it is this Government that has built the cooperation of the parties involved so that genuine progress is achieved.

Business is understandably sceptical that the benefits claimed in Fightback can be achieved and have every right to be apprehensive about the confrontationist approach being advocated by Dr Hewson.

Quite simply, Dr Hewson's claims on the benefits of his microeconomic reforms evaporate under scrutiny. They are like his claim of 2 million jobs to be created. This claim was never modelled in Fightback and under questioning it too diminished to a "guesstimate".

#### TAX CUTS

I said that the GST is principally about replacing a number of existing taxes with a new one.

There are also the income tax cuts of \$12 billion. These are more than accounted for by bracket creep, the increase in the company tax rate and, mainly, the cuts to outlays.

These cuts cannot and will not be funded by the GST. As the tabulation earlier shows, \$26 billion of the \$27 billion proceeds of the GST are spent abolishing other taxes and for the base compensation package. The \$12 billion of tax cuts will have to be funded by cuts in Government spending - cuts that will decimate social policy.

The Treasurer and Minister for Finance have pointed out there is a huge hole in Fightback's figuring to the tune of \$6 billion in the year of implementation.

It is a hole which removes most of the benefits Fightback is supposed to provide.

The expenditure cuts that Fightback proposes deserve the highest scrutiny.

Of course, many are not spelt out in any detail but rely on inroads into fraud, inefficiencies and waste.

This is a noble objective - indeed, it should be part of any good administration's operations - but to suggest that billions of dollars can be found from such measures after the years of cutting into outlays is totally incredible.

What this emphasis does demonstrate is that the savings in Fightback are shonky. In truth, if Dr Hewson is to make the real savings upon which Fightback depends, he will have to cut into real programs.

#### SOCIAL SECURITY

However, there are a number of areas where substantial cuts into programs are proposed up-front. These cuts, ostensibly designed to stop people robbing the social security system, would in fact seriously weaken its integrity.

Government has to be vigilant against those who attempt to take advantage of the system and, indeed, through increased resources for review teams and the like, we have developed one of the most targeted systems in the world.

The fact that a few may secure benefits they are not entitled to does not justify measures which seriously hurt those in genuine need.

Benefits have been increased substantially for those in need.

For example, pensions have been increased by over 15 per cent in real terms under this Government after falling by 2 per cent under the previous Coalition Government.

Unemployment benefits have been increased by over 25 per cent under Labor after falling by almost 20 per cent under the Coalition.

At the same time we have greatly improved the focus of expenditure.

At the ANU, Deborah Mitchell has found that while expenditure on social security in Australia as a share of GDP was the lowest of the ten OECD countries she examined, it was very successful in achieving its objective of alleviating poverty.

Fightback's contempt for the low paid and the dependent ignores such conclusions.

It fails to recognise that, compared with other countries, we spend a relatively modest amount on income support.

It fails to recognise the success in targeting that has been achieved - delivering substantial benefits for a modest national outcome.

And most importantly, it does not recognise the damage the expenditure cuts it advocates would do to the system.

The feature of many of the cuts to outlays is that they would hurt groups in society which are least able to avoid them.

Fightback would find \$745 million by cutting benefits to the unemployed.

It would stop the sole parent pension when the youngest child reaches 12.

It claims to find \$127 million from cutting access to disability pensions.

It would increase the pension age for women to 65. Many of these women have had no opportunity to accumulate super or other forms of retirement income and it is totally unfair to suddenly introduce this measure.

#### EQUITY CONSIDERATIONS

All this simply reinforces the regressive nature of the GST.

Prices overall will rise by 5 to 6 per cent; but the prices of those goods and services that are necessities for everyday living for the less well-off in the community will rise by much more.

The great majority of OECD countries with GSTs or VATs have multi-rate systems precisely to allow food, essential services and the like to be taxed more lightly.

Even John Major recently ruled out extending their VAT to zero-rated items of gas, electricity, food, and children's clothes and footwear.

Dr Hewson is too pure for that. Dr Hewson is going to try rational economics properly.

But increasingly, Dr Hewson is coming under pressure to exempt more items.

Education services are supposed to be zero-rated, but what constitutes an education service? What books are zero-rated and which ones attract the GST? What constitutes a GST-free school lunch?

Medical bills are to be zero-rated, but does this extend to wheel-chairs and sunscreens?

The building, tourism and financial industries all have legitimate concerns with their treatment under the GST.

It is a system riddled with inequities.

The key difference is that under wholesale taxes, we are able to effectively quarantine the great bulk of necessities - fresh fruit and vegetables, electricity bills, clothes, and so on.

The Liberals are not prepared to see a similar targeting under the GST because it would interfere with the ideal model in the accountant's mind.

And the result is that it is precisely the necessities that would face the largest hike in prices.

The price on milk up 9.6%;

Fresh fruit up 10.1%;

Electricity bills up 10.7%;

Large hikes in rates, postal and telephone charges up 8.1%.

Ladies and gentlemen

I haven't today covered all aspects of Fightback by any means. Even though policies are frequently poorly specified, it touches a wide range of issues.

And for so many of these issues, Fightback represents an enormous step backwards.

Nowhere more dramatically than in policies affecting women.

Both parties talk about opportunities and fairness for women, but only Labor has the policies and the track record.

Labor introduced sex discrimination and affirmative action legislation. Labor has increased the number of child care places five-fold and provided generous fee relief. 64% of the 1.5 million jobs created since 1983 have gone to women. Labor has supported a wages system that saw women's average wages increase from 67 cents to 83 cents for every dollar earned by men.

The Coalition cannot make the same commitments to promoting equality for women. Its enterprise bargaining system would certainly see a decline in their wages.

Where our aim is to give women a choice about whether or not to join the paid labour force, Dr Hewson would force many women to work.

Older women would be forced to stay at their jobs longer because of Dr Hewson's rapid phase-in of an equal pension age for women and men.

Mothers would also be big losers under Dr Hewson's policies. The cost of child care would rise because it would be subject to the GST. 100,000 women would no longer get their Family Allowances. Managing the household budget would be made infinitely more difficult as the necessities of life increase in price with the GST.

With Fightback, the agenda would be pushed back on the environment, on young Australians, on education and training, on policies relating to our ethnic communities and to Aboriginals, on science, on sports, and the arts.

These are issues which require detailed responses in their own right and my Ministers and I will be addressing them in detail in the near future.

## HEALTH

I would like to finish on health policy because it is perhaps this issue that epitomises the blind application of the ideology that underpins Fightback.

Australia currently uses about 8 per cent of its resources on health. This is close to the OECD average and well below the figure in the United States of 12.8 per cent.

With these resources, we are able to provide a first rate health system.

Medicare provides quality care based on the principles of efficiency and access for all Australians.

As with any large system it benefits from the sort of periodic review and refinement that we undertook most recently in the Budget.

It is a system that works - and works well.

The Opposition's policies would effectively destroy Medicare. The replacement would be expensive and iniquitous, an alternative introduced in the name of choice and market efficiencies.

The provision of health care is not like any other good or service in Dr Hewson's economic rationalist model.

The unrestrained market will not provide effective health services for everyone while keeping costs contained.

In fact, Fightback would see costs soar.

It would largely hand over responsibility for setting health costs to the AMA. Dr Hewson said as much explicitly to the AMA at its Council.

It would do this by firstly removing incentives for doctors to bulk-bill by restricting bulk-billing to health-card holders only.

At present, about 70 per cent of GP services are bulk-billed at 85 per cent of the Medicare schedule, a practice that is cost effective for the doctor and the system as a whole.

Moreover, Fightback would allow gap insurance for costs up to 85 per cent of, not the Medicare schedule, but the AMA schedule, the schedule set by the doctors themselves!

GPs would have little incentive other than to charge the great majority of their patients the AMA fee and, because the current AMA schedule is some 20 - 30 per cent above the Medicare schedule, patients would be obliged to take out private insurance to avoid hefty payments at every trip to the doctor.

Without insurance, patients would be paying about half of their medical bills. And these would be the people who are currently benefiting from free health through bulk-billing.

Treasury has estimated that the overall impact on household health bills would be an increase of 22.6 per cent.

The higher costs would affect everyone, but the hardest hit would be those least able to afford it.

Dr Hewson would provide some tax credits for private health insurance, but the amount being offered would be less than half basic medical insurance costs, let alone supplementary cover or gap insurance.

Many would simply not be able to privately insure themselves and their families.

Two classes of patients would result with doctors returning to the days of taking on charity cases.

Fightback's health policies would see us move towards the expensive US system where 35 million Americans have no insurance or access to services.

And why does Fightback contemplate the change? Not to improve national efficiency. Not to improve social equity. Not to improve quality of medical services.

The change proposed by Dr Hewson stems from his insistence that market forces be imposed on our medical system. Bulk-billing is ideological anathema.

The doctors, the pathologists, the radiologists, the private hospitals all stand to benefit. The low paid, the frequent users of the system, including women and the elderly, lose. The notion that a good society is measured by the degree to which all are provided with care and the necessities of life is abandoned.

Nowhere are the obsessions of Dr Hewson plainer. Nowhere is Fightback more obviously regressive.

This is "rational" economics "properly" applied.